

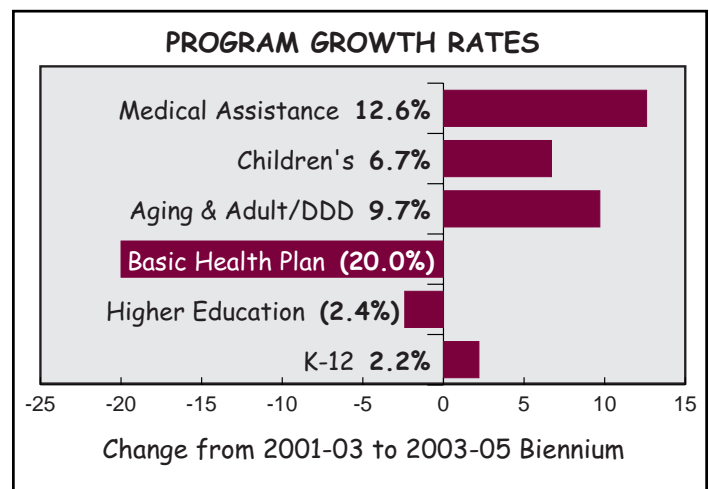
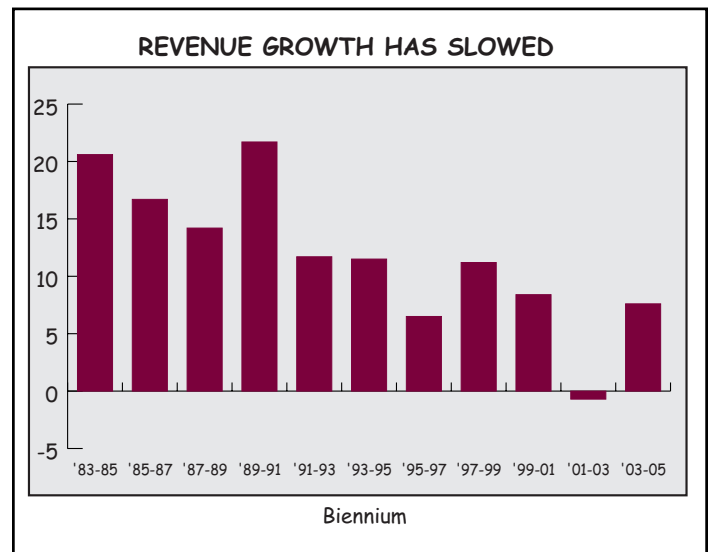


July 2003

BUDGET CHALLENGE

This session legislators faced a gaping hole of over \$2.6 billion between expected revenues and estimated expenditures. This shortfall was caused by a weak economy, a big drop in revenues, initiatives that mandate new spending without new money, initiatives that reduce state taxes, soaring health care costs, and the use of one-time savings for on-going programs in recent budgets. It all came together this year in a “perfect storm” of a deficit – something we had in common with most other states across the country.

The outcome is a tough, lean state budget – which tries to preserve core responsibilities, but makes cuts that will be felt by many. Expenditures mandated by voter-approved initiatives will be reduced or frozen this biennium. Low-income families will contribute to their children’s health care. The Basic Health Plan – subsidized for low income – will fund 25,000 fewer enrollees. State support to hospitals is sharply reduced. Students at universities and community colleges will pay higher tuition, compounding the big increases last year. Over 1100 state jobs will be eliminated. Employees, teachers, and faculty receive no cost-of-living increase and will pay significantly more of their health benefit costs.



Education

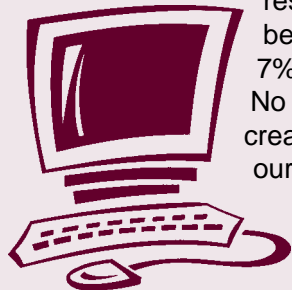
K-12 PUBLIC SCHOOLS

There were a few enhancements. Next year beginning teachers will receive a minimum of \$30,000 in state funding – polls show voters generally support higher pay for public school teachers. The funding mandated by Initiative 728 to reduce class size and extend learning opportunities will increase from \$212 to \$254 per pupil – but far less than the goal of \$450. Special programs such as Math Corps, and the Pacific Science Center's science van were preserved.



HIGHER EDUCATION

Core funding for universities and community colleges was cut again this year. Undergraduate resident tuition increases will be capped at a maximum of 7% this year and 7% next year. No general enrollment increases were provided to meet our growing number of high school graduates. However, needed worker retraining programs are



continued and some increase will be provided in high demand degrees such as nursing and other health related professions, science and engineering, and viticulture programs in Eastern Washington to bolster our successful wine-making industry. Four hundred additional junior- and senior-year slots are added to relieve the current "choke point" for students transferring from community colleges to four-year institutions.

FORMER GOVERNORS LOOK AHEAD

Governor Evans and Governor Gardner made an impressive team, convincing the Legislature to commit to capital investments for the present and future needs of higher education.

Thanks to their initiative, we approved \$750 million in bonds over the next several years for new and upgraded facilities. The community colleges, especially, need classroom space. The four-year institutions face aging buildings and a growing need for lab and computer facilities to meet the demand for science, math and engineering. Future students and the state as a whole will thank the two Governors for their vision and their leadership.

ECONOMIC COMPETITIVENESS REPORT CARD

The Technology Alliance published a Report Card on Washington's status and potential to attract and retain future high tech and biotech development. They gave us a "D" in funding for higher education and a "C+" for research capacity – with the caveat that Washington ranks 46th of 50 in state research funding, and is living off a legacy of investments from past decades. We took two small steps to improve that ranking:

- ✓ \$250,000 was allocated to Industries of the Future, a bioinformatics research effort combining biology and the computing power of today's technology.
- ✓ The budget also provided \$2.5 million to the University of Washington for match for some tiny part of the \$900 million in federal and other grants the UW receives each year.

WHITHER BOEING?

The Boeing Company has shown interest in relocating to another state. Why? Our failure to reduce gridlock? Our costly unemployment system? More Washington DC clout elsewhere? Native-born Boeing leadership long gone?

We want very much to retain a major Boeing presence, including the planned new super plane known as the 7E7. Boeing has long criticized our unemployment compensation structure, which is



higher than most states' and spreads the cost of industries with seasonal

workers to employers with a year-round workforce. The Legislature modified the unemployment insurance system, reducing benefits and employer costs. Further, contingent on the 7E7 decision to locate here, we funded a \$15 million dock improvement at the Port of Everett and reduced the business and occupation tax rate for the aircraft industry (Boeing and its suppliers).

INVESTING IN OUR OWN STATE

I serve as a member of the State Investment Board, which is responsible for investing over \$48 billion in state pension and other trust funds. The Board has adopted a policy for increasing the focus on Washington-based companies, including startups, as potential for investment. All investments must pass clear guidelines. Years ago the SIB bought two downtown office buildings – Union Square One and Union Square Two. These have proven to be prime and valuable real estate with strong return to the trust funds.

Other legislation of interest

ELECTIONS

The problematic punch card voting system still used by some jurisdictions will be phased out. Congress has mandated improvements and even provided some funds to assist the states.

TWO-ONE-ONE

Three digit dialing codes – we are all familiar with 911 – soon we will have 211. 211 will be the official state dialing code for information about health and human services – including information regarding access after a natural or other disaster. This service will go into effect, on a trial basis, in King County and the Vancouver/Portland area early in 2004.

STATE PARKS

Washington will join virtually every other state in charging parking fees at many state parks. However, no parks will be closed and the fees are dedicated to badly needed maintenance and improvement expenditures. The daily fee is \$5 and an annual permit costs \$50.

HOME CARE WORKERS

Voters approved Initiative 775, allowing low-paid home care workers to unionize. The initiative covered about 26,000 workers who are employed by the person requiring care and paid through the state Medicaid program – about half of whom care for a family member. The bargained agreement called for benefit increases totaling \$98 million. In this tough budget year, the Legislature approved funding of \$31.5 million, which will provide for a 75-cent-an-hour increase in the hourly wage – from \$7.68 to \$8.43.

PRESCRIPTION DRUGS - AND BIG MEDICAL COSTS

Taxpayers, and many individuals, are paying huge costs for prescription drugs. State health programs spend \$1.1 billion each biennium on medications in nursing homes, mental hospitals, and health care for the disabled, low-income, and seniors.

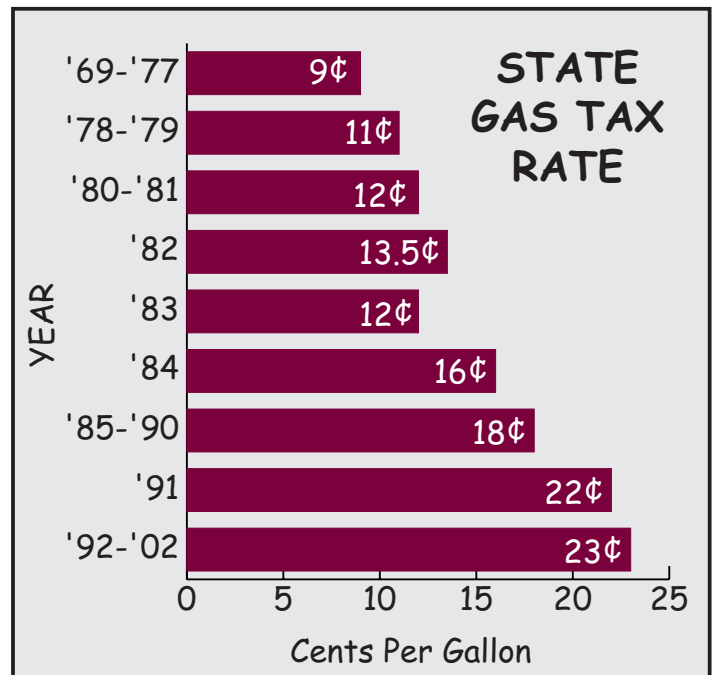
New legislation directs the use of “preferred drugs” – that is, those that are proven effective but are lower cost. Persons over age 50 and disabled adults under 50 (with income below \$27,000) will be eligible to join the state's buying pool, taking advantage of price discounts. MD's may continue to write a prescription for any drug, but will be encouraged to prescribe those with lower cost.

TRANSPORTATION

We finally took steps to provide desperately needed investment in transportation. The gas tax will rise by 5 cents to 28 cents per gallon and other vehicle related fees will increase. The last gas tax increase was one penny in 1991. Washington is 48th out of 50 states in capital outlay for highways. Gridlock is expensive to industry and to commuters and a drag on our economy. The graph shows our "frozen in time" transportation funding.

This year's proposal designates \$177 million to a fix for the Alaskan Way Viaduct – a modest but significant step toward a cost estimated at \$ 3.5 billion up. Highway improvements include funding for Interstate 5, Intrastate 520 and 405, as well as many others around the state.

There is also funding for ferries, transit, passenger and freight rail, commute trip reduction and vanpools.



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